

## Summary of the Panel Discussion on the Grand Design for Northeast Asia

The panel discussion on the grand design for Northeast Asia consisted of two parts: the first part focused on the content of the grand design for Northeast Asia, which is currently being researched by the National Institute for Research Advancement (NIRA), and discussion of this by the panelists. In the second part, discussion of how the money required to finance development in Northeast Asia should be procured focused on the option of establishing a Northeast Asia Development Bank (NEADB).

In the first part, discussions mainly centered around ascertaining the possibilities for formulating a grand design for cooperative development in Northeast Asia and ways of making progress with implementing the initiatives, conditions and other work needed in order to enable each country and region of Northeast Asia jointly to formulate the grand design.

At the outset, Yasuo Sawai, Executive Vice-President of NIRA, provided an overview of NIRA's research into the grand design for Northeast Asia and stated that NIRA is aiming to draw up a vision aimed at creating a Northeast Asian community; in other words, an Asian version of the OECD. He pointed out that, although regional economic integration is progressing in regions around the world, cooperative economic relationships in Northeast Asia are still insubstantial. He explained that the aims of formulating the grand design are as follows: firstly, to create a comprehensive collective development vision for the broader region that emphasizes organic links within the region as a whole, in order to achieve sustainable development in Northeast Asia. Secondly, to increase complementary economic relationships and promote regional economic integration in order ultimately to create a Northeast Asian community, thereby easing political tensions and strengthening regional security. Thirdly, to create a plan incorporating elements that will be in the best interests of Northeast Asia as a whole and which will act as a benchmark for coordinating investment policies and the effective planning of social capital, as well as playing a much-anticipated role in attracting greater investment from countries outside the region. Fourthly, to respond to the need to heighten consensus through the participation in research projects of government research institutions in each country, and ultimately assist in increasing cohesive forces within the region.

According to Mr. Sawai, the grand design covers a time span of 10 – 20 years and targets the six countries of Northeast Asia: Russia, Mongolia, China, the DPRK, the ROK and Japan; it is characterized by the fact that, compared with previous concepts relating to Northeast Asia, it is based on countries as individual units and has a somewhat broader focus. The fundamental policy for the grand design is based on the twin pillars of the integration of infrastructure (physical integration) and effective regional development systems.

With regard to regional integration, Su-Hoon Lee expressed his opinions regarding the necessity of solving problems in areas other than the economy, particularly problems relating to the Korean Peninsula, and asserted that the region must overcome its history. Moreover, he stated that the Korean Peninsula occupies an extremely dominant geographical position and has the advantage of being located between China and Japan, which have a strong rivalry and an unfortunate history. In order peacefully to create a prosperous Northeast Asian community, it is first of all important that the Korean Peninsula be denuclearized and that a framework for building trust and peacefully resolving conflicts then be established; at the same time, it is vital that relationships that are mutually complementary to each country's interests be built.

Pavel Minakir commented that Northeast Asia's problems fall into one of three broad classifications: establishing a consensus on the problems that should be solved in the region; how to exploit the potential of existing mechanisms and industries; and the form that should be taken by a mechanism designed to reconcile and resolve various problems. Moreover, he presented the reasons why this region cannot integrate its development or actions. It is difficult to form dynamic groupings because the countries and regions within Northeast Asia are at differing stages of economic development; it is therefore hard to establish consensus because social standards vary as a result of this. In addition, the economic mechanisms adopted by each country and region differ. He emphasized the importance of securing flows of capital and forming common markets, such as energy markets, capital markets and financial markets.

Mark Valencia touched upon the integration of transport systems, pointing out that it is necessary to ensure that transport frameworks that have hitherto been bilateral are broadened to become multilateral. More specifically, he highlighted the necessity of creating two transport networks: the Yellow Sea network and the East Sea/Japan Sea network. What is important in creating a multilateral transport network for Northeast Asia is to develop an environment in which a variety of transport operators can do business, regardless of their nationality, and to alleviate various bottlenecks, such as those relating to customs checks and procedures.

Jinping Zhao was unfortunately unable to attend, so his paper was read by the moderator. In this paper, Mr. Zhao defined the core content of the joint development vision for Northeast Asia as being the coordination and implementation of infrastructure construction, regional development and the distribution of industry by each Northeast Asian country in line with the interests of the region as a whole, and the gradual completion of hard and soft socio-economic infrastructure across the entire region. While pointing out the large gap that still exists between the actual situation in Northeast Asia and the necessary conditions that must be put in place before joint development can be achieved, he noted that, in order to achieve regional integration, it is first of all necessary to start with inter-regional trade, forming industrial systems for the division of labor based on complementarities. In addition, the joint planning and development of infrastructure, particularly in priority regions and fields of business, is required, as well as the harmonization and integration of economic policy. He demonstrated his recognition that the promotion of open, receptive regional trade by China, Japan and the ROK, and its gradual expansion to include other countries would be of positive significance for the integration of Northeast Asia as a whole.

At the beginning of the second part, Hisao Kanamori delivered a presentation concerning the rationale for establishing the NEADB, in the form of an overview of a paper written by Stanley Katz, former Vice-President of the Asian Development Bank(ADB). In his presentation, Professor Kanamori asserted that adequate development of hard infrastructure is a fundamental condition for economic growth, citing experience gained from post-war reconstruction in Europe and Asia in the aftermath of the Second World War and development in developing countries. He stressed that, at present, most of Northeast Asia's infrastructure is outdated and undeveloped, so it is necessary to increase investment in infrastructure. In addition, he presented estimates made by the Northeast Asia Economic Forum, which estimate Northeast Asia's annual demand for finance as being approximately \$7.5 billion; hitherto, the main sources from which funding has been procured have been international development finance institutions, such as the World Bank and the ADB, bilateral aid from OECD countries, and foreign direct investment by the private sector. However, he asserted that only about \$2.5 billion would be able to be procured from such sources each year, and although the establishment of a special fund within the

World Bank or the ADB would be possible, it would not have a credit creation effect, so it would be necessary to establish a NEADB in any case. Using the development bank principle, he explained that it would not be necessary to pay in \$5 billion in order to supply \$5 billion; capital could be obtained by means of investor countries promising to pay the money when it is required.

While underlining the necessity of establishing a NEADB, Mr. Kanamori also emphasized that the functions of the World Bank and ADB should not be ignored. The NEADB could play a supplementary role with regard to finance supplied by the ADB and the World Bank. At the same time, he asserted the importance of opening up the way for the provision of funding by the private sector.

Shuzu Wang stated that Northeast Asia is the world's most dynamic region; the global economy in the 21<sup>st</sup> century depends upon the economy of Asia, with Northeast Asia being the leading economy in Asia as a whole. He expressed his opinion that regional cooperation is required in order to sustain dynamic development in Northeast Asia, with a good financial environment being a prerequisite for this. He explained that the reasons for this are that the Northeast Asian market and its demand for finance is extremely large, but the options for procuring finance for the region are limited; in addition, it is thought likely that the region's general economic might and ability to procure finance will grow in the future, and China has the capacity to have a positive effect on economic and financial cooperation in Northeast Asia.

Yoseki Nagase underlined the necessity of thoroughly checking each project's potential for procuring finance, in addition to creating a NEADB. He asserted that what is currently needed in considering this is to give sufficient consideration to issues such as the loan terms, looking at what loan restrictions exist for which projects in which regions, while also clarifying the areas, conditions and scale of loans that cannot be covered by existing development finance institutions. Moreover, he stated that, as there are cases in which socio-economic factors act as constraints on loans, it is necessary to give consideration to these factors, while also clarifying the necessary functions, domains and scale of finance.

Jaw-yann Twu raised the issue of the necessity of publishing an action plan or road map in order to found the NEADB as soon as possible. He demonstrated his awareness of the fact that it is necessary to embark upon a campaign in readiness for the 8<sup>th</sup> ASEAN+3 summit in November 2004. He also asserted that a top-down approach should be adopted, given the international political implications of establishing a NEADB. Moreover, he stated that Japan is the most passive of the Northeast Asian countries and that it is necessary for Japan to make up for lost time.

Jae-Woong Lee pointed out that the establishment of a NEADB for the multilateral provision of finance is necessary for the future of the region, while also proposing the founding of a Northeast Asian financial cooperation organization. He stated that, under the Chiang Mai initiative, reciprocal currency arrangements worth \$35 billion have been concluded, and asserted that it is necessary to make further progress with this, creating a currency basket system that includes the US dollar, the Euro, the Chinese Yuan (Renminbi), the Japanese Yen and the South Korean Won.

Batbayar noted that Mongolia's central bank had established 600 branches by 2003 and that the volume of finance had grown to \$400 million.

Tsogtsaikhan stated that it is necessary for the governments, academic institutions and private sectors of each country to make practical efforts. He emphasized that consortia should be formed and cooperation pursued not only in the political arena, but also in the domains of the economy and society.